

BUDGET BASIC MATERIAL PROGRAM
~~Basic Material~~

3

AIRGRAM

FOREIGN OPERATIONS ADMINISTRATION

SECURITY CLASSIFICATION

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FROM - FOA/W

SUBJECT - BMP FY 1955

REFERENCE - (A) USFOTO CIRC A-02
(B) USFOTO CIRC E-22, USFOTO CIRC F-20,
(Check one before each address) USFOTO CIRC N-3

ACTION INFO. ADDRESS AND SERIAL NUMBER

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~~Amman, Ankara, Beirut, etc.~~

It has been decided that FOA/W will not request new funds for a Basic Materials Program for FY 1955. If, however, any funds are left over from the \$19 million appropriated for FY 1954, it is possible that a record may be made in Congress to permit use of any such balance during FY 1955 under relaxed criteria (i.e. eligibility of materials in short supply from view point of countries receiving U.S. assistance rather than limited to materials needed by U.S.) as indicated REF A and B.

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G. H. Craig, Director, S/IND

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OCTOBER 10, 1953

Sent All European Missions USFOTO Circular E 22 All Far East Missions USFOTO Circular F 20 All Near East South Asia and Africa Missions USFOTO Circular N 3 from Department.

Calcutta for Katmandu, Paris MSN basic materials programs for FY 1954 and FY 1955.

1. Separate airgrams are being despatched describing:

A. Criteria and procedures applicable to basic materials program for FY 1954 and (6) nature of project submission requested for FY 1955.

2. Major difference between programs for 2 years has to do with types of projects eligible for financing. Legislative history for FY 1954 limit programs largely to materials in critically short supply point of view of US stockpile. For FY 1955 FOA/Washington hopes to be able to revert to criterion of needs of countries receiving US assistance for increased supplies of materials which are in short supply in the free world. Also anticipate more emphasis on projects to open up areas from which important materials might be secured rather than on direct production projects which are more likely to be handled by private investment.

3. FOA/Washington contemplates requesting \$40 million or \$50 million in FY 1955 in contrast with \$19 million received for FY 1954 but this constitutes no limitation on mission submission sound and well described

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projects. Any project to be undertaken in metropolitan Europe would require very special justification.

4. At present time official date for submission of FY 1954 program to bureau of budget is October 10. Recognize, however, impossibility presenting any program on that date except in most general terms. Essential we be able to present illustration projects to budget by November 1. For submission at that time projects should be selected from among those well developed in the past by the mission or PC or from sound projects well advanced in current planning

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SUBJECT -- Project Submissions for Basic Materials Program for FY 1955

REFERENCE --

1. In general, criteria and procedures outlined in Circ Airgram September 30, 1953, for Basic Materials Projects in FY 1954 will govern in FY 1955, except that the types of project eligible for Basic Materials financing will more nearly approximate those submitted to Congress for FY 1954, and hence will have a broader scope than those described in the reference airgram.

2. The major change from the reference airgram contemplated is that materials will be eligible for first priority consideration because they are in critically short supply from the point of view of countries receiving U.S. assistance and will not be limited to materials still being added to the U.S. stockpile. This would mean, for example, making coke and iron ore projects to increase availabilities for Japan again eligible for Basic Materials financing. However, projects will not be undertaken when supplies are reasonably available at competitive cost to the FC when delivered in the country receiving aid or when there are critical surpluses.

3. (a) In FY 1955, the emphasis should be on projects which will open up areas for development, including preliminary mapping, exploration and engineering services, as well as ports, transportation, power facilities and other ancillary projects. However, where Basic Materials financing is sought, or may be desired, project description should indicate clearly the relationship of the ancillary development to increased production of specific materials. This is particularly true with respect to power project submissions for FY 1955 which should be accompanied by careful estimates of the type of production they will make possible and amount of power required for such stated purposes.

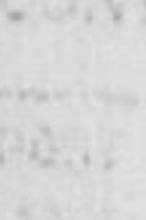
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Glenn H. Craig, AD/S	AFH/richs/mg	AD/S	2988	10/1/53

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3. (b) Direct production projects should be left as far as possible to private investment or financing by public lending institutions, but direct production projects will still be regarded as eligible for Basic Materials financing in exceptional cases. Special attention should be given in country or Basic Materials Programs to encouragement of preliminary work that must precede large-scale investment in direct production projects. TA may be appropriate but care must be exercised to insure that grants are not in effect made to private parties.

4. FOA/W hopes limitation of projects to Africa and Asia may be lifted in FY 1955. As practical matter, we anticipate slight expansion of Basic Materials Projects in Africa, but would hope to be able to present soundly conceived projects in Asia totalling at least \$15 million or \$20 million after screening. Any project to be undertaken in Metropolitan Europe would require very special justification. Since no projects have ever been financed with BM funds in LA, LA Missions may regard this airgram as intended for their information.

5. FOA/W contemplates total request for \$40 or \$50 million in FY 1955 in contrast with \$19 million received for FY 1954, but this constitutes no limitation on Mission submission sound and well-described projects. The more good (repeat good) projects that can be submitted, and for which other means of financing do not appear to be available to cover full cost of project, the better.

6. (a) In addition to submitting projects as called for in paras 2 and 3, Missions should indicate materials which are in critically short supply from point of view PC and should indicate non-dollar sources outside the PC, if any, in which Government of PC believes increased production of specific materials would be desirable to create adequate and economic source for PC. Have discussions for such development been conducted by PC and other Governments involved or by representatives of private interests? Are PC Government or private interests in PC prepared to undertake any part of financing? Have there been joint discussions with IHD, for example, as to feasibility Bank financing for such developments? Would indicated non-dollar sources be competitive in world markets or would they have to be sustained by subsidies or discriminatory agreements? What studies or experience indicate need for expansion of regional or world sources of supply of specific materials for PC? Do these studies reveal true shortage, immediate or imminent, or do they merely indicate PC desire to stop buying from U.S. commodities in adequate supply here at world market prices?

(b) It is recognized that PC's may have done little thinking of sort indicated by questions in para 6(a) except about materials that cannot be developed locally and which must now be imported from scarce-currency areas such as dollar area. However, since the primary objective of Basic Materials Program is to make sure normal country programs are rounded out and supplemented by projects that consider regional needs and availabilities, development projects submitted by PC's should include evidence as to their relationship to regional or world needs. PC's domestic requirements are,

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of course, part of total regional requirements, but even indigenous development to serve PC needs under normal country program financing should indicate contemplated expansion is economic. To be eligible for Basic Materials financing, there must be clear demonstration proposed project will serve regional or world market needs and will be able to exist in world market.

7. (a) As a practical matter at this time, FOA/W is making no sharp distinction between projects submitted in the country program and projects submitted for Basic Materials financing. The countries' programs as submitted by each Mission, including Basic Materials Projects, should make a consistent whole. In any area where BM Projects are omitted from FY 1955 submissions already made, please submit Basic Materials Projects separately.

(b) Insofar as practicable, Technical Assistance Projects in FY 1955 that may lead on to development projects in a subsequent year should be included in the request for country program financing. In areas where development projects are permitted as part of country program for FY 1955, they should be clearly enough described and sufficiently well distinguished from other parts of program so that they may be included in the country program or the Basic Materials Program as may appear appropriate.

(c) For any project for which large-scale capital development is projected with Basic Materials funds for FY 1955, there should be a definite program to complete adequate preliminary and exploratory work in FY 1954 with TA or other funds. It is recognized that preparatory work will not yet have been completed in some cases. Hence proposals for project financing in FY 1955 can be entertained on assumption that planned (repeat planned) preliminary work will later indicate technical and economic feasibility of project.

(d) Basic Materials Projects will not be financed if they are of low priority from the standpoint of furthering U.S. interests in the regions involved. They may be lower than some excluded projects even in terms of PC interests, only if they serve regional needs better than alternative ways of spending the same amount of money. This is peculiarly true of capital developments in the field of Agriculture, but all programs calling for large-scale capital expenditures to increase materials production should be submitted to the test that such expenditures will make possible a larger increase in production than would result from the expenditure of a similar amount of money on a number of smaller projects and, in particular, on a number of smaller Technical Assistance projects.

8. (a) No decision has as yet been made in FOA/W as to whether Basic Materials Projects will be submitted as separate program or will be submitted along with other development programs as part of the usual country and "regional" program submissions. However, projects submitted by individual country missions will be evaluated in FOA/W from the point of view of regional needs.

(b) It is recognized concept in para 7(d) may not at first appeal to PC's, but they should understand that in allocating development funds U.S. is interested in using its limited resources to achieve maximum benefits

to greatest number of people by giving constant consideration to economic development of regions as a whole. Regional requirements may at times lead to approval of financing for a project that might not qualify on basis of its relationship to PC's own need for materials or need for specific kind of foreign exchange earnings that would result from project. Conversely, regional requirements for increased production of some material might make it impossible with limited funds for region to finance a project in some PC which might qualify if selection of projects was limited by individual PC needs and to projects located within PC itself. PC's should therefore realize the possibility exists of securing somewhat more assistance for development than would otherwise be available, if each PC considers what kind of program will serve the needs of other countries, as well as its own country priorities.

(c) Therefore, insofar as Missions are able to so, they should furnish information which will help FOA/W to determine project priorities from the point of view of meeting regional requirements as well as determining priorities of PC needs that will be served directly.

9. FOA/W regards the Basic Materials Program generally as still in a growing phase and regards the programs for both FY 1954 and FY 1955 as testing some of the underlying concepts. OA/W is presenting the need for such a program to other Agencies of the Executive Branch in belief that some such financing is required in a world of inconvertible currencies to produce an expansion of trade between non-dollar areas. In this sense, however, the programs will be significant, only if it can be shown that by supplying relatively small amounts of dollars or local currencies, U.S. funds act as catalytic agents to encourage a larger flow of private investment, of IBRD funds or of foreign government funds than would otherwise occur. A second underlying concept which is being tested involves the notion that, if funds are available to finance an expansion of production for the non-dollar trade of countries receiving U.S. assistance, many projects will in fact be developed which may ultimately prove eligible for IBRD or other normal sources of dollar financing but which would not have been brought to such a state of readiness unless there had been initial assurance that they might be considered for BM financing if other means of financing could not be found.

10. FOA/W anticipates that there must still be a substantial grant program for TA Projects in FY 1955 to evolve development programs, particularly in Asia. However, outright grants for projects to increase the production of materials which will earn some form of foreign exchange are regarded as inappropriate for many countries even in FY 1954. Still other areas in FY 1955 will be asked to consider what form of payment they can make for BM funds.

11. FOA/W contemplates that the funds required in FY 1955 may be either local currency funds or dollar funds, and that the bulk of the Basic Materials financing is likely to involve the financing of some portion of the local currency expenditures for a development project.

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12. As will be evident from the foregoing, FOA/W presumes that the Basic Materials Program will be a continuing program for several years. This does not (repeat not) mean that Congress will be asked in FY 1955 for a larger appropriation than will be needed to finance minimum obligations for FY 1955. It does not (repeat not) mean that, by undertaking to finance some part of a project in FY 1955, U.S. Government will be committed to additional financing in later years. However, FOA/W does plan to present the Basic Materials Program to Congress in such a way that it would be legitimate for PC's to develop Technical Assistance Projects in FY 1955 which might be financed as development projects in FY 1956, if preliminary studies in FY 1955 indicated that they were warranted. It also means that it would be possible in FY 1955 to inaugurate projects which might take several years for their completion, though the schedule for completing such projects might be delayed if the country were required to provide all resources needed after FY 1955.

13. Project submissions must be made by FOA/W to the Bureau of the Budget by November 1. In view of tight deadlines, it has not been practicable to clear these instructions with other agencies or to discuss fully with them the forms of payment which may be suggested for the FY 1955 program. This airgram will, of course, be circulated to all interested U.S. Government Agencies and, more especially, the Program will be ~~then~~ thoroughly discussed with them before presentation to Congress. Submissions for November 1 deadline should be checked against this airgram. It should also be used to guide continuing work in formulating further projects for later submission.

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FOA/W

DATE: October 27, 1953

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USFOTO Circ N 3. Some explanatory work in basic material supplies carried on by our Natural Resources Division and hope for increased development during 1954-1955. However, most of geologists time spent on water resources being primary factor host government. Some iron ore discovered.

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SUBJECT - Basic Materials Program FY 1954

REFERENCE -

1. The following instruction supersedes criteria for BFI Programs as outlined in Circular A-14 to all NSA and TCA Missions, August 28, 1952, Bangkok MISTO A-732, March 28, 1953, and MISTO Circular P A-243 to all Far East Missions, dated May 29, 1953.

2. Congress has approved a BFP for 1954 and Appropriation Act provides \$19 million for assistance authorized by Sections 514 and 548 of the HSA of 1951, as amended.

a. Section 514 states: "In order to reduce the drain on United States resources and to assure the production of adequate supplies of essential raw materials for the collective defense of the free world, the Director for Mutual Security is authorized to initiate projects for, and assist in procuring and stimulating increased production of, materials in which deficiencies or potential deficiencies in supply exist among nations receiving United States assistance. There is hereby authorized to be appropriated to the President for the fiscal year 1954 not to exceed \$7,500,000 to carry out the provisions of this section."

b. Section 548 states that "(a) The several amounts otherwise authorized by this Act to be appropriated are authorized to be increased by amounts which shall not, in the aggregate, exceed \$98,396,000. (b) Amounts appropriated pursuant to any authorization contained in this Act are authorized to be made available for purchase of foreign currencies (including foreign currencies or credits owed to or owned by the United States): Provided, That such currencies or credits are authorized to be made available for use, without reimbursement to the Treasury, for liquidation of obligations legally incurred against such currencies prior to July 1, 1953."

SEITZ, TICHNOR, STONEMAN, ARMY-10, BB, CIA, COMM, EPS, EXIN, FRB, ODM
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H. Craig, Acting Assistant Director for Supply	Kirrich/Rothschild/Sweet:fab	Ind.	1334	9/30/53

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Cleared in draft by:) Horn, CES/AD/E) Mahorn, Contr.) Lane, AD/FE) Kearn, TCA/FOA)	UNCLASSIFIED	Mr. Rand, Dep.) List of materials, para 5, cleared) by phone with: Morgan, ODM) Fuller, EPS) Flaming-Wilson, GSA)

3. Of the \$98,396,000 stated in para 2,b above, \$25 million of counterpart was originally earmarked for basic materials. This, together with the \$7,500,000, authorized under Section 514, made a total of \$32,500,000. However, the Mutual Security Appropriation Act, 1954, P.L. 218, 83rd Congress appropriated \$19 million for the entire program, the bulk of which will, under the legislative history, probably be used to purchase foreign currencies under Section 548, either by acquisition from abroad, or by use of dollar counterpart funds. In appropriate cases, such as Formosa, local currency funds for B1 purposes may be generated by dollar financed commodity imports.

4. General Conduct of the FY 1954 Basic Materials Program.

Section 514 of P.L. 118 can be interpreted very broadly. However, although the Senate Foreign Relations Committee endorsed the basic purposes of the FCA Basic Materials Program, the House Appropriations Committee Report indicates a firm intent that the program be limited to projects in Africa and Asia for projects directly related to the production or transportation of critical and strategic materials. In view of the legislative history, the FY 1954 B1P will be conducted along the following lines:

First Priority

(1) Direct production or transportation projects aimed directly at increasing production of critical materials in short supply in the free world and in the U.S. (see 5 below).

a. Direct Production Projects.

Dollar or local currency funds may be made available to governments or to private producers for direct production projects, including preliminary surveys. Direct production projects include exploration of known deposits, local power facilities, and other facilities which are indispensable to increased mine production, and which are clearly a part of direct investment necessary to increased production of critical and strategic materials.

b. Support Projects in the Field of Transportation.

Funds may be made available for the purpose of assuring the availability of increased transport (such as ports, roads and railroads) necessary to secure increased production or deliveries of strategic materials.

(2) Assistance to financial institutions, such as an Industrial Bank in Turkey, which would primarily, but not exclusively, develop chrome or other high priority items.

Second Priority

(1) Preliminary study and engineering for auxiliary power and other auxiliary facilities important to the production or transportation of high priority materials.

(2) Preliminary exploration and geological surveys in Asia and other underdeveloped areas (and engineering and other preliminary surveys for support projects) for development of projects to produce materials which are in regional short supply (e.g., in Japan or Western Europe rather than the United States). Such exploration or surveys might (a) indicate projects which might be financed from other sources (including private investment), (b) form the basis of an FOI FI 1955 program.

For such projects, consideration should first be given to the fullest possible use in a country program of Technical Assistance Funds. However, if material resources may be available in larger quantities than needed for consumption within the country and may offer promise of export to other areas on the basis of regional needs, consideration may be given to the use of small amounts of Basic Materials Funds to induce preliminary stages (including mapping and surveys) paving the way for subsequent production projects. These projects will be given special consideration where it can be shown that they will pave the road for the investment of private capital.

5. Materials to be considered under the Basic Materials Program:

The stimulation of exploration, production, and deliveries of the following materials are considered eligible under First Priority (1 and 2) and Second Priority (1) above.

Group I

Beryl
Cobalt
Nickel
Columbite-Tantalite
Asbestos (spinning grade
Chrysotile & Amosite)
Mica (Muscovite grade blocks)
Copper
Chromite
Manganese Ore
Industrial Diamonds
(Stones & Bort)
Tungsten
Selenium

Group II

Platinum
Titanium Ore
Zirconium
Aluminum
Bauxite
Amorphous Graphite
Molybdenum
Fluorspar (Acid Grade)
Vanadium

Preference will be given to items in the first group although materials in both groups would be eligible for basic materials financing on the basis of materials which are in short supply. The above lists are subject to change from time to time and Missions will be notified accordingly.

6. Consultation with Governments.

In every case where negotiations are proposed with private parties, the local government shall be consulted before hand and its concurrence secured. In addition, assurances of the local government will be required that it will permit the contractor to perform under the contract.

7. Timing of Projects

a. Emphasis will be given to projects which can produce or facilitate production at early dates. Normally in FY 1954 this will mean that projects will be given favorable consideration only where it can be reasonably assumed that the carrying out of the projects will result in the beginning of increased production or delivery of materials in a period less than five years. It is desirable to encourage the presentation of projects which will, within a reasonable period of time permit demonstration of the development role played by the Basic Materials Program.

b. Normally, strong preference will be accorded requests for assistance where under reasonable circumstances is given that the U.S. funds requested will be expended within eighteen months after execution of the contract. Although it is recognized that this limitation presents difficult problems for projects which require more than 18 months for final completion, it is felt that this limitation is desirable considering the amount of funds available. Accordingly, in the case of long-term overall projects, it is felt necessary that they be broken down where feasible into identifiable stages, each stage to have a concrete objective. In the event a valuable project cannot be broken down into stages USA will require a financing plan on the part of the country which will assure the completion of the project even if no further basic materials funds are appropriated in FY 1955. It is recognized that the completion date would probably be delayed if the country were required to complete the project with its own resources. Consideration will be given to U.S. financing for a greater than normal proportion of the expenditures during the first 18 months of such a project, provided the country firmly undertakes to complete the project within a specified period.

8. Other Financing Sources.

Basic Materials Funds may not be used if:

- a. USA will undertake the project within its program to provide critical and strategic materials for the U.S.
- b. Private financing is available, or would normally be expected to finance the entire project.
- c. If either IB-IB Bank or IFAD will undertake the project.

NOTE: Missions are urged to concern themselves with stimulating sound projects, including those that are likely to prove profitable. Experience has indicated that it is possible to initiate or expedite projects, some of which the banks may take but which might not have been developed if there were no possibility of other financing than available from the banks.

9. Methods of Financing.

a. Patented Goods

Assistance under Section 514 is contingent on a substantial participation from other sources, private or public. Generally, the justification for a proposed project or integrated group of projects - (e.g., combined program for a mine, power plant and railroad) will show that the U.S. funds will be at least equally matched by funds from other sources - (P.C. Budget, loans, or private capital).

b. Loans

Loans

(i) Consultation with NAC. ~~Under such circumstances~~ will be made available only after consultation with NAC. All loans will be repayable to the U.S. Government, either in the currency advanced or in materials, to be determined on a case-by-case basis.

(ii) Amortization and Grace Period.

a. The maximum amortization period for loans for direct production (including exploration) and support projects will generally be no longer than 15 and 20 years ~~maximum~~ respectively, with preference for the earliest economic amortization period. The actual terms for each loan will be determined on a case-by-case basis after consultation with NAC.

b. In special cases a grace period will be considered for deferring payments of interest and repayments of principal for periods of up to five years. Interest, however, will accrue from date of advance.

(iii) Interest Rates. The determination of interest rates will be made by NAC in the light of general U.S. policy and on a case-by-case basis. For discussion purposes it may be noted that the 1953 experience was that the minimum rate was about two percent higher than the U.S. market rate for U.S. Government obligations and that, in the case of local currency loans, the local rate for similar obligations was influential.

(iv) Contingent Loans for Exploration Projects. Recognizing the peculiar character of exploration, the need for such projects if materials availabilities are to be expanded, and the difficulty of finding risk capital for such ventures, funds under this program may be made available on a loan basis for high priority exploration projects, with a provision that repayment will be made only if materials in economically exploitable quantities are discovered. In such contracts it must be clearly spelled out that this provision applies to any materials discovered in such quantities and not only to certain specified ones. There must also be adequate assurances that, upon discovery, exploitation will be undertaken.

c. Development Banks.

FOA funds may be made available to assist in the establishment of a development bank, or of a mining department of an existing development bank, which is designed primarily to provide financing for the production of materials noted in 5 above. Any such project

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will, of course, be carefully reviewed by MAC and FCA/W. In general, however, the project submission should indicate:

- (i) The need for a credit institution to develop high-priority mineral production in the area;
- (ii) A capital contribution of non-FCA sources of at least 60%;
- (iii) An outline of the proposed method of operation, together with a statement as to the desirability for associated U.S. technical assistance; and
- (iv) A direct contractual relationship between FCA and the government concerned (or the financial institution, with government approval) in order to make clear that FCA relations will only be with the government or bank concerned. This would exclude proposals that FCA funds be used through a development bank as agent for loans to private producers, and would thus avoid questions of the role of FCA on default, etc., if it were the principal using the bank as agent.

d. Special Types of Financing.

It may be appropriate in some cases to make funds available on the basis of an investment of U.S. Government funds which would yield annual income payments to the U.S. Treasury, but which would not require amortization of the principal. Such an arrangement might be an appropriate means of making capital available to a development bank, which would require the amortization of individual project loans but which planned a continuous program of reinvestment.

e. Grants.

- (1) FCA funds for basic materials projects will be available in FY 1954 on a grant basis as well as on a loan basis. Grants will be considered under the following circumstances:

1. Where a project is highly essential and can be shown to be non-self-liquidating, and where no subsidy to private enterprise is involved.
2. To finance surveys or preliminary engineering where TA or country funds are not available and where a small amount of BM funds may pave the way for subsequent production projects, which might give rise to increased exports.
3. Where funds are made available to a foreign government or foreign government agency which, in turn, will make the funds available on a loan or other agreed basis for approved development projects, but where for political or other reasons the U.S. Government regards it as disadvantageous to maintain continuing supervision of the reinvestment of the funds

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and where for economic reasons FOA/W believes that the country involved cannot repay dollars or materials to the United States, it is anticipated that PC's receiving a grant from FOA for basic materials development would then provide financing for revenue producing projects on a loan basis. Such loans would be repayable to the PC in local currency to be reused in an agreed manner. These repayments would provide funds for deferred counterpart deposits. Under these conditions, we anticipate exploring the wisdom of establishing local joint revolving funds and other appropriate credit institutions for the reinvestment of funds for development on mutually agreeable terms.

The question of counterpart deposit will be decided by FOA/W on a case-by-case basis. In general, however, FOA/W believes it would be desirable to develop grant projects on a basis analogous to the TCA-type development projects on a matching contribution basis. This seems more appropriate in the general BM case where local currency requirements bulk large, where dollar commodity assistance is minimal, and where U.S. support is largely required for technical assistance and services and equipment and supplies related thereto.

10. Options for Material Purchase.

In direct production projects and, where appropriate, in support projects, provision may be made for a U.S. Government option to purchase a portion of the increased materials production resulting from the project. Option terms for particular projects will be forwarded to the Mission after consultation with GSA.

11. Justification Required.

a. Justification on basis of above criteria.

In every case, whether the project be of direct or support nature, there must be a clear showing that the use of the assistance requested will result in the maintenance of production, that would otherwise substantially decline, or a substantial increase in the production and/or delivery of basic materials as described in 4 above.

b. Showing of the need for assistance.

In each case there must be a clear showing that assistance under Section 514 is necessary. In this connection it should be borne in mind that FOA is charged with promoting increased private investment to meet the development needs of countries receiving U.S. assistance. In connection with each project there should be an indication of whether private funds would be accepted, and in the case of direct projects whether such funds would be accepted on a participating basis, and what steps have been taken in an attempt to secure such funds.

c. Engineering and financial justification of the soundness of the project.

- (1) In the case of support projects, proof will be required that all necessary preliminary engineering has been completed and that a final plan is ready

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for implementation unless the funds requested are for the purpose of drawing up such a plan, in which case proof will be required that the necessary preliminary studies have been completed and necessary data are available to begin such planning.

- (ii) In the case of direct projects, there will be required a showing of the soundness of the proposed projects from the standpoint of the adequacy of proven reserves, the validity of the proposed mining techniques or processes, the quality of the available management and know-how, and financial soundness and responsibility. Before approval of a project, an examination by a qualified engineer or expert will be required.

These same requirements of justification must be met in the case of exploration projects which FCA/W has indicated, after a preliminary review, it is willing to consider under this program.

12. Reporting and Inspection.

a. Reporting.

Provision shall be made in each contract, under which funds under this program are made available, for the submission of adequate physical and financial progress reports.

b. Inspection and Audit.

- (i) As a part of the Project Authorization, but not necessarily formally incorporated therein, FCA/Mission Controller and others will arrange for periodic inspections by FCA personnel of the progress of each project.
- (ii) In addition to participating in inspections and reviewing such reports, the Mission Controller is responsible, during the project and at completion of various phases, for determining that the funds advanced were properly utilized for specified project purposes and in accordance with the Project Authorization. This shall be done by:
 1. Confirming that appropriate records are maintained and financial controls and procedures are established by the Participating Country.
 2. Reviewing and evaluating these controls for adequacy, and recommending necessary changes, if any, through the Mission Chief to the FC operating officials; and
 3. Auditing documents and records to the extent necessary to assure that funds were properly spent and that the submitted financial statements are accurate.

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(iii) Arrangements should be made with the PC at the initiation of each Basic Materials Project on types of records, controls, and matters such as desirability of segregation of records of FCA funds, to preclude special problems and changes to the maximum extent possible.

(iv) The Mission is responsible for evaluation of and reporting on the technical, physical and financial aspects of the project in terms of the stated objectives of the Project Authorization.

13. Submission, Review, and Approval of Projects and Negotiation of Contracts.

a. Selection and submission of projects by Missions.

Missions will develop projects with local authorities in the light of these instructions and their own knowledge of the areas, their possibilities and requirements. Since final approval must be based on overall requirements, relative priorities and availabilities of funds, no commitment as to U.S. assistance for the carrying out of these projects should be made to the local authorities. Projects should be submitted to FCA/W in accordance with Circular A-23, September 27, 1952. Prior to submission Mission Controller should review project for financial soundness and risk involved, adequacy of financial data, including costs.

b. Review and approval of projects.

FCA/W will, upon receipt of projects, consult with GSA/W and the IBRD and Eximbank to ascertain whether they are interested and able to take over the project; if GSA or the banks indicate a willingness and ability promptly to take over a project, it will be turned over and the Mission notified. FCA/W will then review the remaining projects. It will review them in the light of the criteria, the projects submitted from other areas, and available funds. It will approve those projects which seem to give the best possibility of carrying out FCA responsibility with the available funds. Requests for further information and decisions on projects will be transmitted to the Missions direct from FCA/W.

c. Engineering Examination.

Missions will be responsible for technical evaluation of projects in the field; FCA/W will be responsible for final evaluation, including review by the Controller. In this connection, use will be made wherever available of GSA personnel in the field to carry out on-the-spot technical evaluation. Where GSA technicians are not available, technical personnel will be assigned to evaluate projects. Depending upon circumstances, it may be necessary to hire private consultants on a temporary basis to investigate the projects. The greatest possible use will be made of TA for carrying out such evaluations.

d. Negotiation of contracts.

In the event that a project has been approved by FCA/W, it will be necessary to secure local government approval as in "b" above, and execute a contract between the U.S. Government on the one hand, and the foreign government on the foreign private national

receiving assistance on the other. These negotiations will normally be carried out by the Missions on instructions from FOA/W. (See also MUSTO CIRC A-67, May 26, 1953).

e. Follow-up and reporting.

Missions will be responsible for following up and reporting on performance under these contracts. In the interest of central evaluation, copies of all such reports will be sent FOA/W.

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